



TAX BENEFITS AND SAVINGS PLANS FOR HIGHER EDUCATION



<u>FEDERAL PROGRAM</u>	<u>AMOUNT ALLOWED</u>	<u>RESTRICTIONS</u>
<p><u>Hope Scholarship Credit</u></p> <p>Credit against tax owed</p>	Up to \$1,650 per student	Only first two undergraduate years, enrolled at least half time. Family income must be less than \$110,000 (single parent \$55,000) for full benefits.
<p><u>Lifelong Learning Credit</u></p> <p>Credit against tax owed</p>	Up to \$2,000 per family	Based on actual amount paid for educational expenses. Same income limitations as for Hope Program.
<p><u>Coverdell Education Savings Account</u></p> <p>Tax-free withdrawals from account</p>	May contribute up to \$2,000 per child per year, up to age 18.	Contributions to fund are tax free. Also no tax due when withdrawn to pay for educational expenses. Family income must be less than \$220,000 for full benefits.
<p><u>IRA</u></p> <p>No tax on early withdrawals for higher education</p>	May withdraw up to full educational costs	May dip into a retirement-initiated IRA for educational expenses with no penalty.
<p><u>Interest on Education Loans</u></p> <p>May claim deduction for interest paid</p>	Up to \$2,500	Applies only to interest paid during first 60 months. Family income must be less than \$60,000 (single parent \$40,000) for full benefits.
<p><u>Tuition Payment Plans</u> ("529" College Savings Plans) Prepayment of future tuition expenses</p>	No limits, if money is used for college expenses	Earnings over the years not taxed until withdrawn, and that at the student's relatively low rate. Counts as parent asset.
<p><u>VPEP</u> Virginia Pre-Paid Tuition Plan. Locks in college costs today for students ninth grade or younger.</p>	Full tuition and fees at public universities and community colleges	Can be used nationwide but return is set at Virginia rates. Counts as asset of the purchaser.
<p><u>U.S. Savings Bonds</u></p> <p>Tax waived on interest when used for a state tuition program or an education IRA</p>	No limits, if money is invested in a program for future college expenses	Applies only to certain U.S. Savings Bonds, a series EE US bond issued after 1989 or Series I Bond.